



Trade Update

October 29, 2019

Provided by the [Corn Refiners Association](#)

Highlights

- **USMCA:** USMCA gap is narrowing between members of the House working group and USTR. Despite progress on reaching a deal, some Congress Members are growing increasingly concerned about the agreement going up for a vote before the end of the calendar year.
- **China Tariffs:** U.S. and Chinese negotiators are close to concluding several sections of the Phase 1 deal, while China released new policies on several key areas of contention between the U.S. and China, including intellectual property protection and exchange rate stabilization.
- **WTO:** South Korea has agreed to give up the right of special and differential, marking one small victory for President Trump's goals for WTO reform; however, the Appellate Body impasse is poised to continue indefinitely.

USMCA

- As of Monday, USTR and House Democrats are narrowing the USMCA gaps in outstanding issues, renewing focus for concluding a deal and a possible vote on the agreement this year. Reported remaining issues include, defining the specifics of a labor inspection process to ensure Mexican firms are upholding USMCA labor rules; the breadth of support for new infrastructure to address cross-border pollution; and an agreement on intellectual property provisions related to biologics.
- Not surprising, the details of a potential labor inspection process, along the lines of the Sen. Wyden and Brown proposal for factory inspections, remains the most challenging discussion on the table, according to USTR and Hill sources.
- With a dwindling number of days left in the 2019 congressional calendar, some officials in Washington are increasingly anxious, as exemplified by Senate Finance Committee Chairman Chuck Grassley, who said that he is "worried, very worried, for the first time starting about now...time is running out." On a positive note, several officials have stated that they remain optimistic about the progress being made, with National Economic Council Director Larry Kudlow saying on last week that House Speaker Pelosi "has been accessible and open and accommodative."



(Pictured: Larry Kudlow, National Economic Council Director)

- Chairman Neal said he believes "only a few more" negotiating sessions with Amb. Lighthizer are needed to conclude an agreement on USMCA changes. "We have gotten a lot off the table and agreed not to revisit," he said. Neal's comment followed three consecutive days of meetings between Amb. Lighthizer and the Pelosi's House Working Group.
- President Trump last Friday pressed House Democrats to quickly pass USMCA, saying the lawmakers are wasting time on their impeachment inquiry. "Republicans are just outraged, and the American public is outraged, that the do-nothing Democrats are doing nothing," Trump said. "We need USMCA passed. It's a great deal for our country, for our farmers, manufacturers, unions."
- In stark contrast, AFL-CIO President Richard Trumka strongly rebutted the notion that the chances of passing the USMCA are slim if Congress does not approve it this year. He said House Ways and Means Chairman Richard Neal and Democrats must ensure legitimate enforceability of USMCA before concluding a deal with Amb. Lighthizer. "What's magic about this year?" "I don't care whether it's November, December, January or November of next year. When the agreement is worthy of the American people, we'll vote on it. And if it isn't, we'll oppose it," Trumka stated. He added that USMCA negotiations should not have an artificial deadline, adding that he talks to Lighthizer all the time and he has seen "some movement" in the USMCA working group's negotiations with the trade chief.



(Pictured: Richard Trumka, AFL-CIO President)

- Senator Grassley rejected the possibility that USMCA will be linked to a pension bill in order to garner more support from Democratic lawmakers still on the fence about the agreement, an idea that had been floated by Rep. Richard Neal. "I'd like to see the two issues handled separately" he said. His sentiments have been echoed by several House Democrats who are members of the House Ways and Means Committee, including Rep. Dan Kildee and Rep. Earl Blumenauer.
- A group of GOP Congress Members have formed a "whip team" in order to drum up support among Democrat colleagues amidst concerns that many are still unsure they will vote "yes" on USMCA when it comes up for a vote. Representative David Schweikert, a member of the whip team, noted that with some of his colleagues "...it's the politics of the activists in their base that's the problem." Rep. Dan Kildee, who is yet undecided on how he will vote on USMCA, cited his concerns over whether Mexico will follow up on its labor reforms as the reason for his indecision. "Will it accelerate the pace of implementation particularly in the export sector, where most of the problems would be? And I'm not entirely convinced yet...that Mexico, despite their president's sincere goals, is going to be able to overcome the huge cultural hurdle they need to in order to have meaningful reform" he said.



(Pictured: Representative Dan Kildee)

- Over 80% of small business leaders support passage of USMCA, according to a new [poll conducted by Morning Consult](#) for FedEx. More than 80 percent of respondents also indicated that increasing trade with other countries would help the U.S. economy, and 65 percent said they thought increasing trade would improve business opportunities for small and medium enterprises.

Section 232 Tariff Actions

Auto Tariffs

- The 180-day extension on President Trump's decision on 232 auto tariffs is rapidly approaching (est. Nov. 13), with little indication from the Administration of potential outcome of talks with the EU. On May 17, Trump delayed the tariff announcement, instructing USTR and other officials to negotiate a solution to reduce auto and auto imports from the EU, Japan, and other major exporters.
- As reported earlier, Sen. Grassley was spearheading efforts to develop consensus legislation that draws on bills proposed by Portman and fellow panel member Sen. Toomey to restrict the Presidential authority to impose Section 232 tariffs. Sen. Portman recently confirmed any new legislation on the issues is not likely prior to the 180-day tariff extension period concludes.

Section 301 Tariff Actions

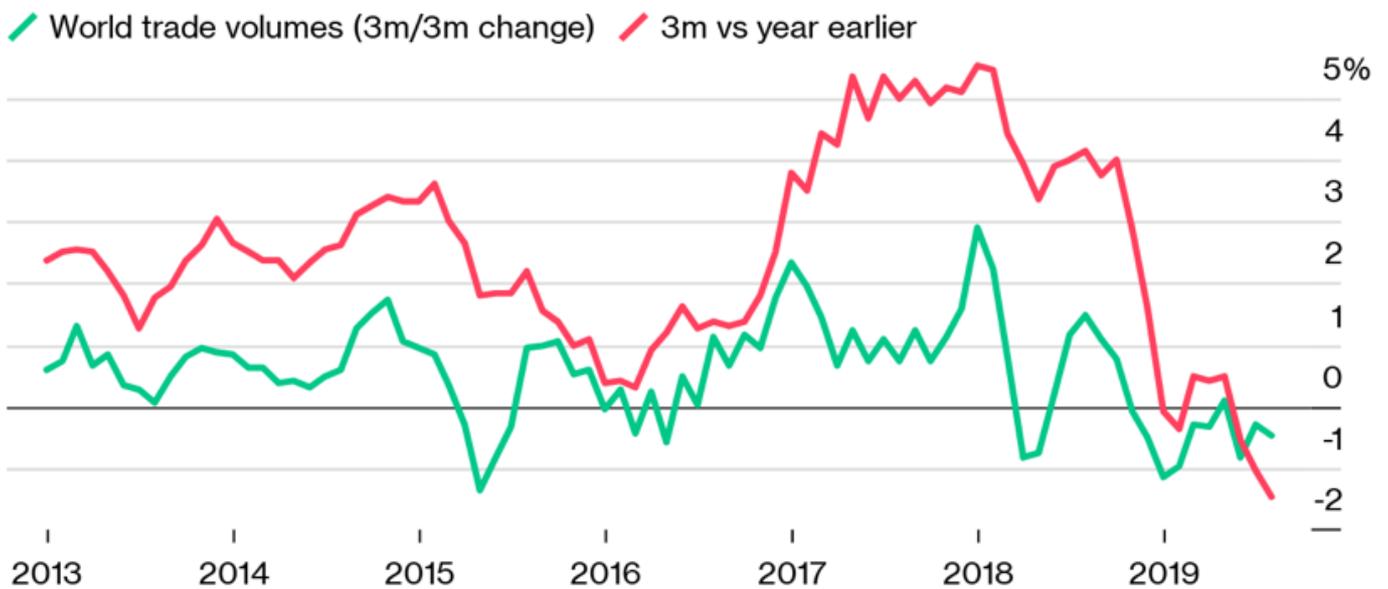
- USTR [announced](#) the exclusion process will open on October 31st for List 4A products, remaining open until January 31, 2020. No official details on List 4B tariffs, which take effect on December 15th, though White House economic advisor Larry Kudlow reported last week on Fox Business that tariffs could be "off" if the Phase One talks go well. Question remains whether exclusions for the first wave of tariffs, which will expire on December 28th, will be renewed under this action.
- Amb. Lighthizer and Treasury Secretary Steven Mnuchin met last Friday to resume negotiations with Chinese Vice Premier Liu He aiming to finalize "Phase 1" of a trade pact that is promised to result in

massive increases of U.S. ag exports to China. On Friday afternoon, it was announced that the group came close to finalizing several sections of the agreement during the call, and that the three would hold another call "in the near future."

- A USTR statement said that negotiators had "made headway on specific issues and the two sides are close to finalizing some sections of the agreement," and that "Discussions will go on continuously at the deputy level, and the principals will have another call in the near future."
- China released several new policies last Wednesday in the areas of intellectual property protections and its foreign exchange market. These were two of the key areas of contention between the U.S. and China that led to the current trade war between the two countries. Among the changed IP protection policies include applying national treatment to IP law enforcement, improving protection of trade secrets, instituting more punitive measures for IP infringement, and "never allow[ing]" forced technology transfers. In terms of currency exchange, China will ("basically") stabilize the yuan's exchange rate relative to a basket of currencies, maintaining a floating exchange rate with "adjustment and management."
- Recent trade data reveals weakening world trade flows due in part to escalating tariffs among large trading partners.

Shifting Into Reverse

Global trade volumes continue to weaken amid escalating protectionism



Source: CPB

Bloomberg

U.S. - Japan Trade Agreement

- The U.S.-Japan trade deal is moving closer to going into effect after the approval by Prime Minister Abe's cabinet of a bill to ratify the agreement. The next step will be for the Japanese parliamentary body, the Diet, to approve the bill before the end of the extraordinary session it has called in order to move the trade pact to ratification. The extraordinary session will conclude on December 9th.
- President Trump directly addressed the benefits of the trade agreement for the U.S. agricultural sector during the signing ceremony, noting that "In the United States, these deals are a game changer for our farmers and our ranchers...we've been working very hard on this - providing them with significantly enhanced access to a critical foreign market." Later, he added, "Under the terms of the agreement, today Japan has committed to dramatically increase market access to American food and agricultural exports...It's one of the largest trade deals ever signed. As a result, 126 million Japanese customers will have greater access to high-quality American almonds, blueberries, corn,

wine, poultry, and egg products, beef, pork, wheat, and so much more.”

U.S. - EU Trade

- On October 18th, the announced 10% or 25% tariffs of \$7.5 billion of EU goods, resulting from the WTO's ruling of illegal launch aid to Airbus, went into effect. According to the [final list](#) released by the White House, products subject to additional 25% duties include a wide range of agriculture and manufactured goods, notably cheeses, yogurt, butter, fruits, whiskey, and certain textile and apparel items. The 10% duties comprise solely of non-military aircraft and parts.

U.S.-U.K Trade Agreement

- Just days before the Oct. 31st deadline for Brexit, The EU granted a three-month delay to Britain's divorce from the EU as Prime Minister Boris Johnson pushes for an election after opponents forced him to request an extension.
- In a [tweet](#), European Council President Donald Tusk confirmed the new deadline and concept of a flexible extension. “The EU27 has agreed that it will accept the UK's request for a Brexit ‘flexextension’ until 31 January 2020,” referring to the concept of a flexible extension.



(Pictured: Donald Tusk, President European Council)

- Amidst the complicated landscape of Brexit politics, Commerce Secretary Wilbur Ross has suggested that the process of negotiating a trade deal between the U.S. and the UK should be a quick process if the UK has a no-deal Brexit because “the issues between the U.S. and UK are far smaller than the issues between either of us and the EU.”
- President Trump and Prime Minister Johnson previously expressed that they aim to have a U.S.-UK free trade agreement concluded quickly after the exit of Britain from the European Union. According to Bloomberg Economics, about 0.9% of global GDP is exposed to Brexit trade risk. For some context, EU-UK trade is about 3.1% of world trade.
- As Brexit uncertainty deepens, U.K. officials are preparing to renew or strike new bilateral/multilateral trade relationships (below).

Sugar Suspension Agreement. The decision voids the Commerce Department's amendments to the Agreement secured with Mexico in 2017 and reverts the suspension agreement back to its 2014 version, which suspended anti-dumping and countervailing duties against sugar imports from Mexico.

- A Commerce Department spokesperson said the agency was currently reviewing the decision, but "would take all actions required by the law" to implement it. It referred further questions about the case to the Justice Department, which litigates on behalf of the Dept. of Commerce.
- The American Sugar Alliance (ASA), which supported the 2017 modifications to the Suspension Agreement, noted that the CIT decision faults procedural missteps, not the substance of the agreements.
 - "The CIT's recent ruling was purely a decision based on Department of Commerce record-keeping procedures and has nothing to do with the merits of the suspension agreements," ASA spokesman Phillip Hayes said in a statement. "The U.S. sugar industry is considering its legal options and consulting on next steps with the Commerce Department."

U.S. - India Trade Developments

- Rep. George Holding reported that restoring the General System of Preferences (GSP) could be linked to a preliminary trade pact with India. Rep. Holding, who is co-chair of the Congressional India Caucus, indicated he had spoken with Amb. Lighthizer about an expected interim deal with India. "Everyone in the administration is bullish on more trade with India." Last month President Trump announced a U.S.-India preliminary trade pact could be concluded "very soon," to be followed by a broader trade agreement. Shortly afterward Indian Commerce Minister Piyush Goyal said both negotiating teams were close to finalizing an initial trade package that could be announced in the "coming days."

General Trade Cooperation/WTO Reform

- Ten U.S. business associations and free trade advocacy groups, including Americans for Prosperity, [sent a letter](#) to President Trump last Wednesday urging him to create a detailed proposal on how to reform the WTO Appellate Body. Although the U.S. has criticized the AB for straying from its mandate and has been blocking the appointment of new panelists for several years, the U.S. has not brought forth a proposal for a workable solution.
- The U.S., Canada, Brazil, Norway, Switzerland, Argentina, Australia, New Zealand, Costa Rica, Singapore, and Taiwan released a joint statement last week urging fellow WTO members to increase transparency in dispute settlement procedures at the WTO through the publicization of written submissions and the publicization of statements to both other WTO members and to the public. The EU, which did not co-sponsor the statement, has agreed with the U.S. on this subject in the past, but has been made clear that this is conditional on the existence of a functioning dispute settlement system, referring to the impending paralysis of the AB in December when two of the remaining three panelists' terms expire.
- Veteran international trade lawyer Terence Stewart does not believe that the Appellate Body crisis will be resolved prior to the 2020 election, explaining that he believes that the EU will stand firm in its opposition to the U.S. in hopes that a new administration in the White House might cause the U.S. to change its position. "Right now, there is a fundamental disagreement between the U.S. and Europe. Europe is OK with all of the things the U.S. is not OK with. And to some extent that's probably related to the fact that the European Court of Justice interprets the EU agreements similar to how the Appellate Body is interpreting the WTO agreements, creating obligations that aren't in the agreements, etc., and the countries seem to be OK with that in Europe. So, for whatever reason, Europe is kind of hard-nosing the issue" he explained.
- South Korea will retain its developing country status but will relinquish its right to special and differential treatment in future WTO negotiations, it recently announced. An arguable victory for

President Trump's efforts to convince several countries with advanced economies to forgo this self-designated status. However, Trump's biggest target, China, has firmly refused to give up its developing status and the corresponding right to special and differential treatment.



[Corn Refiners Association](#) | 1701 Pennsylvania Avenue, NW, Suite 400, Washington, DC 20006

[Unsubscribe](#)